Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	Marquette Board of Light & Power	Marquette

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
6/30/05	10/7/05	11/23/05

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☑ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)			
Makela, Toutant, Hill & Nardi, P.C.			
Street Address: 201 W. Bluff	City: Marquette	State: MI	ZIP: 49855
Accountant Signature: Makela, Toutant, Hill & Nardi, P.C.		Date: 11/23/05	

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

Marquette, Michigan

June 30, 2005

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2005

Audited Financial Statements

Other Financial Information

Supplemental Information

Management Discussion and Analysis

This annual report consists of a series of financial statements, notes to the financial statements, and other financial information. Following is a brief description of each statement and the notes.

The balance sheet presents the financial position of the Marquette Board of Light and Power (MBLP) on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations for the years ended June 30, 2005, and June 30, 2004.

The statement of revenues, expenses, and changes in net assets provides the reader with the revenues and expenses by major category for the current fiscal year and the prior fiscal year giving the opportunity for a direct comparison of these items for the past two fiscal years. Increases and decreases in the individual line items on this statement can be analyzed and evaluated. This statement also indicates the change in net assets.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the MBLP's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and any subsequent events.

After the financial statements and notes to financial statements, the MBLP presents other financial information. This information includes a schedule of operating expenses, schedule of utility plant in service, comparative operating statistics, and comparative financial and statistical information.

The following table summarizes the financial condition and operations for the MBLP for 2005 and 2004:

	June 30, 2005	June 30, 2004	Dollar Change	Percent Change
Current and other assets	$ 17,817,762	$ 18,972,993	$ (1,155,231)	-6.09%
Restricted assets	6,218,696	6,170,741	47,955	0.78%
Capital assets	39,788,406	40,786,937	(998,531)	-2.45%
Total assets	63,824,864	65,930,671	(2,105,807)	-3.19%
Long-term debt outstanding	9,582,190	13,768,351	(4,186,161)	-30.40%
Other liabilities	8,253,648	7,581,836	671,812	8.86%
Total liabilities	17,835,838	21,350,187	(3,514,349)	-16.46%
Net assets:				
Invested in plant, net of related debt	31,664,794	28,886,862	2,777,932	9.62%
Restricted	2,210,634	2,210,809	(175)	-0.01%
Unrestricted	12,113,598	13,482,813	(1,369,215)	-10.16%
Total net assets	$ 45,989,026	$ 44,580,484	$ 1,408,542	3.16%

Management Discussion and Analysis--Continued

	June 30, 2005	June 30, 2004	Dollar Change	Percent Change
Revenues:				
Electric revenues	$ 21,042,471	$ 19,942,130	$ 1,100,341	5.52%
Sales to UppCo and WepCo	2,891,898	3,097,767	(205,869)	-6.65%
Interest earnings	638,058	426,681	211,377	49.54%
Other	678,640	768,604	(89,964)	-11.70%
Total revenues	25,251,067	24,235,182	1,015,885	4.19%
Expenses:				
Electric expenses	24,240,626	21,099,735	3,140,891	14.89%
Interest and debt expense	468,451	570,553	(102,102)	-17.90%
Other	33,714	32,155	1,559	4.85%
Total expenses	24,742,791	21,702,443	3,040,348	14.01%
Net income	508,276	2,532,739	(2,024,463)	-79.93%
Capital contributions from customers	900,266	554,247	346,019	62.43%
Increase in net assets	$ 1,408,542	$ 3,086,986	$ (1,678,444)	-54.37%

Current and other assets have decreased by 6.09 percent. This is primarily due to a decrease in short-term investments held for payment of coal invoices and other short-term cash flow considerations. Long-term debt was reduced due to the annual bond payment. All long-term debt currently held by the MBLP will be paid off by July 01, 2008. Other liabilities have increased from the prior fiscal year due to the timing of coal shipments and payments.

Electric revenues and electric expenses have risen in part due to the cost of coal and purchased power. These higher costs are reflected in customer revenues through the utility's fuel adjustment clause.

Capital contributions from customers increased by $900,266 primarily due to the Founder's Landing development by the City of Marquette.

Net assets have increased by about $1,408,000 during fiscal year ended June 30, 2005, indicating that the MBLP's financial position has improved as a result of the year's operation.

There were no significant variations between original and final budgets. Notable variations from budgeted amounts to actual amounts were: higher sales to Wepco under the capacity and energy contract; greater than budgeted maintenance expenses for the major turbine overhaul performed during the fiscal year; increased operation and maintenance costs for the combustion turbine due to the scheduling of maintenance work; availability of purchased power; and economic considerations.

MAKELA, TOUTANT, HILL & NARDI, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPA's
Michigan Association of CPA's

REPORT OF INDEPENDENT AUDITORS

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

We have audited the accompanying financial statements of the Marquette Board of Light and Power (Board) as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Marquette Board of Light & Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Board of Light and Power as of June 30, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in Management's Discussion and Analysis on pages one and two is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2005

CPA

Our goal is to help you meet yours!

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BALANCE SHEETS

MARQUETTE BOARD OF LIGHT AND POWER

	June 30 2005	June 30 2004
ASSETS		
UTILITY PLANT		
Electric utility plant in service--Notes A and C	$ 113,361,354	$ 111,345,699
Less allowances for depreciation and amortization	73,572,948	70,558,762
NET UTILITY PLANT	39,788,406	40,786,937
RESTRICTED ASSETS--Notes B and D:		
Bond and interest redemption fund	4,008,062	3,959,932
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow fund	12,634	12,809
TOTAL RESTRICTED ASSETS	6,218,696	6,170,741
CURRENT ASSETS		
Operation and maintenance fund--Note A:		
Cash and cash equivalents	623,875	2,777,987
Investments	2,855,216	3,704,501
	3,479,091	6,482,488
Accounts receivable, less allowance for losses in collection (2005--$159,514; 2004--$123,502)	1,339,446	1,033,410
Inventories		
Coal	3,447,172	858,433
Diesel fuel	448,364	336,011
Materials and supplies	370,838	403,302
Prepaid expenses	67,298	66,735
TOTAL CURRENT ASSETS	9,152,209	9,180,379
INTERNALLY DESIGNATED ASSETS		
Customer electric rate stabilization fund	1,763,184	2,346,484
Turbine and major generating equipment overhaul fund	856,923	1,244,082
Replacement-risk retention fund	2,433,503	2,555,042
Improvement fund	1,737,991	1,892,238
TOTAL INTERNALLY DESIGNATED ASSETS	6,791,601	8,037,846
OTHER ASSETS		
Investment in UPPPA	1,801,085	1,648,112
Unamortized bond issue expenses	72,867	106,656
TOTAL OTHER ASSETS	1,873,952	1,754,768
TOTAL ASSETS	$ 63,824,864	$ 65,930,671

	June 30 2005	June 30 2004
NET ASSETS		
Invested in utility plant, net of related debt	$ 31,664,794	$ 28,886,862
Restricted	2,210,634	2,210,809
Unrestricted	12,113,598	13,482,813
TOTAL NET ASSETS	45,989,026	44,580,484
LONG-TERM LIABILITIES		
Revenue bonds less current maturities--Notes E and F	8,123,612	11,900,075
Reserve for turbine and major generating equipment overhaul	856,923	1,244,082
Post-closure costs--landfill	601,655	624,194
TOTAL LONG-TERM LIABILITIES	9,582,190	13,768,351
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities on revenue bonds	3,805,000	3,705,000
Revenue bond accrued interest payable	203,062	254,932
TOTAL CURRENT LIABILITIES--RESTRICTED ASSETS	4,008,062	3,959,932
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	1,954,588	1,345,395
Employee compensation and related liabilities	138,763	124,129
Accrued sick and vacation pay	793,157	833,609
Customer deposits, including accrued interest (2005--$18,683; 2004--$18,453)	1,319,078	1,278,771
Post-closure costs--landfill	40,000	40,000
TOTAL CURRENT LIABILITIES	4,245,586	3,621,904
TOTAL LIABILITIES AND NET ASSETS	$ 63,824,864	$ 65,930,671

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2005	2004
OPERATING REVENUES		
Electricity sales:		
Urban	$ 12,214,724	$ 11,486,191
Rural	7,019,772	6,710,934
Sales to Alger-Delta Co-op	805,367	768,081
Sales to Wisconsin Electric Power Company	2,891,898	3,097,767
Street lighting	316,408	302,194
Other municipal departments	686,200	674,730
Rent and other	646,651	738,928
	24,581,020	23,778,825
OPERATING EXPENSES		
Production	12,140,131	10,970,444
Purchased power	2,435,030	709,764
Distribution and transmission	946,114	961,924
Customer accounting	459,964	469,905
Administrative and general	3,977,282	3,652,965
Provisions for depreciation and amortization of landfill site, excluding amounts charged to other operating expenses (2005--$112,243; 2004--$93,947)	3,079,092	3,094,111
Charges from municipality in lieu of property taxes--City of Marquette	1,203,013	1,240,622
	24,240,626	21,099,735
OPERATING INCOME	340,394	2,679,090
OTHER INCOME (DEDUCTIONS)		
Investment income	638,058	426,681
Interest on refunding bonds	(406,125)	(509,865)
Delayed payment fees	31,989	29,676
Amortization of bond issuance expense	(62,326)	(60,688)
Other interest expense	(33,714)	(32,155)
TOTAL OTHER INCOME (DEDUCTIONS)	167,882	(146,351)
NET INCOME	508,276	2,532,739
CAPITAL CONTRIBUTIONS FROM CUSTOMERS	900,266	554,247
CHANGE IN NET ASSETS	1,408,542	3,086,986
NET ASSETS AT THE BEGINNING OF YEAR	44,580,484	41,493,498
NET ASSETS AT THE END OF YEAR	$ 45,989,026	$ 44,580,484

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2005	2004
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Cash received from customers	$ 24,277,554	$ 24,421,527
Cash received for interest	573,291	421,092
Cash paid to suppliers and employees	(23,508,793)	(17,231,485)
Cash paid for interest	(457,994)	(557,247)
NET CASH PROVIDED BY OPERATING ACTIVITIES	884,058	7,053,887
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Capital expenditures, net	(2,206,391)	(2,105,863)
Contributions from customers	900,266	554,247
Proceeds from maturities and sales of investment securities	3,960,332	4,334,924
Other	11,431	
Proceeds from sale of equipment	2,156	2,445
Purchases of investment securities	(2,850,247)	(4,509,914)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(182,453)	(1,724,161)
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(3,705,000)	(3,610,000)
NET CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	(3,705,000)	(3,610,000)
NET INCREASE IN OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS	(3,003,395)	1,719,726
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT BEGINNING OF YEAR	6,482,488	4,762,762
OPERATION AND MAINTENANCE FUND CASH, CASH EQUIVALENTS, AND INVESTMENTS AT END OF YEAR	$ 3,479,093	$ 6,482,488
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 508,276	$ 2,532,739
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,191,335	3,188,058
Bad debt expense	36,012	28,773
Amortization of bond issuance expense and bond discounts	62,327	60,687
Unrealized (gain) loss on investments		66,884
(Increase) decrease in:		
Accounts receivable	(342,048)	579,937
Inventory	(2,668,628)	(45,135)
Prepaid expenses	(563)	(8,886)
Accrued interest receivable	(64,767)	(72,473)
Increase (decrease) in:		
Landfill site post-closure care cost liability	(22,539)	(24,138)
Accounts payable	609,193	410,912
Employee compensation and related liabilities	14,634	64,143
Accrued sick and vacation pay	(40,452)	1,566
Customer deposits, including accrued interest	40,307	65,245
Reserve for turbine overhaul and generating equipment	(387,159)	266,337
Revenue bond interest payable	(51,870)	(47,382)
Other		(13,380)
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ 884,058	$ 7,053,887

See notes to financial statements.

NOTE A--STATEMENT OF ACCOUNTING POLICIES

The accounting policies followed by the Marquette Board of Light and Power (Board) and the methods of applying those policies, which materially affect the determination of the financial position, other changes in equity, and results of operations are summarized below.

Description of Reporting Entity: The Marquette Board of Light and Power, Marquette, Michigan, was formed by a revision of the charter of the City of Marquette, Michigan, in 1964 to operate the city's electric utility. The Board consists of five members, elected by the voters of the City of Marquette, each serving three-year terms. The Board appoints the director. The Marquette Board of Light and Power is owned by the City of Marquette, Michigan. The Board provides electrical service to the residents of the City of Marquette, as well as non-residents within an area of approximately 140 square miles outside the city limits. The Board, subject to confirmation by the Marquette City Commission, sets rates for light and power. The accompanying financial statements include only the Marquette Board of Light and Power and no other governmental agencies or departments of the City of Marquette.

The Marquette Board of Light and Power is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting: The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are recognized on the accrual basis in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Reporting:

The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). SGAS 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into the three components of invested in capital assets: net of related debt, restricted, and unrestricted. These classifications are defined as follows:

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Utility Plant: Utility plant acquired prior to 1940 is stated on the basis of values determined by independent appraisers as of that date. Subsequent additions are stated at cost. Costs of the utility plant related to providing service to additional customers are capitalized and, in some cases, a related fee is charged to customers and recorded as contributions from customers.

Additions, improvements, and other capital outlay that significantly extends the useful life of an asset are capitalized. Capitalization thresholds vary by asset category and by type of expenditure.

Depreciation and amortization are provided for on the straight-line method over the following estimated useful lives:

	Estimated Useful Life
Hydro license	30 years
Structures and improvements	33-50 years
Equipment	5-33 years

Gains or losses on normal disposals are not included in net income, but are recorded as adjustments of the allowances for depreciation. Gains or losses on extraordinary retirements or unusual disposals are recorded in net income in their year of occurrence.

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Inventories: Inventories of fuel, material, and supplies are valued at cost (not in excess of market) determined on the moving-average method.

Accrued Sick Leave: The Board has a policy of allowing employees to accumulate sick leave benefits. At retirement, certain terminations of employment, or employees with ten years or more of service are paid for one-half of the accumulated days at their current rate of pay. Such benefits are recorded when earned.

Unbilled Revenue: The Board recognizes revenues on the basis of monthly cycle billings to customers. Accordingly, unbilled revenue from billing date to June 30 has not been recorded. The cost of service rendered is recognized when incurred.

Cash and Cash Equivalents: The Board considers all demand deposits, time deposits, and highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents. Cash and cash equivalents are reported at carrying amount that approximates fair value.

Investments: The Board reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures.* Under these standards, certain investments are valued at fair value as determined by quoted market prices. Exceptions to this policy include the Board's investments in time deposits which are carried at cost and the investment in Upper Peninsula Public Power Agency which is carried at cost because there is no quoted market value for the investment.

State statutes authorize the Board to invest in bonds and other direct obligations of the U.S. government or its agencies; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Board is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements; bankers' acceptances of U.S. banks; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments outlined above.

Statement of Cash Flows: The Board prepares the statement of cash flows to present the change in the operation and maintenance fund cash and equivalents and investment account balances.

NOTE B--RESTRICTED AND DESIGNATED ASSETS

Rates: The Board will charge and collect rates, with the approval of the city commission, necessary to provide net revenues, as defined in the bond agreement, sufficient to cover annual debt service not less than 1.25 times.

Operation and Maintenance Fund: Transfers will be made from the receiving fund in amounts necessary to pay the next month's estimated operating expenses. This fund also includes assets reserved for customer deposits and short-term investments for payment of coal invoices.

Use of Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Board's management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

The major funds created by provisions of the ordinances authorizing the issuance of revenue bonds and by Board designation are as follows:

Bond and Interest Redemption Fund: Transfers will be made from the receiving fund in amounts sufficient to pay bond and interest maturities.

Bond Reserve Fund: Transfers will be made to the bond reserve fund in an amount equal to 10 percent of the 2001A revenue bonds original issuance amount.

Replacement-Risk Retention Fund: Transfers will be made to the fund, as the Board determines necessary, to finance major distribution repairs and replacements and provide for potential claims not covered by existing insurance policies. Transfers to this fund are subordinate to payments in lieu of taxes.

Improvement Fund: Transfers will be made to the improvement fund, as the Board deems necessary for improvements, enlargements, and extensions of the system. Transfers to this fund are subordinate to transfers to the replacement-risk retention fund.

Pinehill Landfill Escrow Fund: The Board has established an escrow fund (based on tonnage) for the future closure of the landfill due to a state regulation.

Turbine and Major Generating Equipment Overhaul Fund: The Board has established a turbine and major generating equipment overhaul fund for future turbine and major generating equipment overhauls.

Customer Electric Rate Stabilization Reserve: This fund consists of funds reserved for plant expansion, retirement of debt, reduction or elimination of adverse fuel adjustments, and/or to avert a rate increase.

NOTE C--UTILITY PLANT

A summary of utility plant is as follows:

	June 30 2005	June 30 2004
Land and land rights	$ 999,971	$ 999,971
Landfill site	120,000	120,000
Hydro license	406,213	405,173
Structures and improvements	10,596,413	10,560,068
Equipment	101,238,757	99,260,487
	113,361,354	111,345,699
Accumulated depreciation	(73,572,948)	(70,558,762)
	$ 39,788,406	$ 40,786,937

A summary of utility plant activity for the year ended June 30, 2005, is as follows:

	Balance at Beginning of Year	Additions	Retirements	Balance at End of Year
Hydraulic production	$ 5,874,460	$ 58,096		$ 5,932,556
Internal combustion	1,414,485	20,521		1,435,006
Turbine combustion	4,491,083			4,491,083
Steam production	66,172,747	36,345		66,209,092
Transmission	2,083,405	27,261		2,110,666
General plant and equipment	3,723,844	305,315	$ (28,211)	4,000,948
Distribution	27,585,675	1,758,853	(162,525)	29,182,003
	111,345,699	2,206,391	(190,736)	113,361,354
Accumulated depreciation	(70,558,762)	(3,191,334)	177,148	(73,572,948)
	$ 40,786,937	$ (984,943)	$ (13,588)	$ 39,788,406

NOTE D--DEPOSITS AND INVESTMENTS

The composition of restricted assets, internally designated assets, and operation and maintenance fund assets reported on the balance sheet at June 30, 2005, are as follows:

	Cash and Cash Equivalents	Investments	Accrued Interest	Total
RESTRICTED ASSETS				
Bond and interest redemption fund	$ 4,008,062			$ 4,008,062
Bond reserve fund		$ 2,198,000		2,198,000
Pinehill escrow fund	12,634			12,634
	4,020,696	2,198,000	$ 0	6,218,696
INTERNALLY DESIGNATED ASSETS				
Customer electric rate stabilization fund		1,710,228	52,956	1,763,184
Turbine overhaul fund	4,780	819,984	32,159	856,923
Improvement fund		1,642,359	95,632	1,737,991
Replacement-risk retention fund		2,299,755	133,748	2,433,503
	4,780	6,472,326	314,495	6,791,601
OPERATION AND MAINTENANCE FUND	623,875	2,751,284	103,932	3,479,091
TOTAL	$ 4,649,351	$ 11,421,610	$ 418,427	$ 16,489,388

Cash and cash equivalents can also be summarized into the following categories:

Cash on hand	$ 1,701
Cash in demand accounts	438,321
Cash in savings accounts	188,633
Other	4,020,696
	$ 4,649,351

Custodial Credit Risk

At year-end, the carrying amount of the Board's deposits with financial institutions, including time deposits that are classified as investments, approximated $13,900,000 and the balance per bank statement approximated $14,293,000. Of the bank balance, approximately $914,000 of the Board's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of $13,379,000 was uninsured and uncollateralized. Therefore, the Board is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the Board's deposits may not be returned to it. The Board places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are in the opinion of the Board subject to minimal credit risk.

NOTE D--DEPOSITS AND INVESTMENTS--Continued

Investments

At year-end, the fair value of the Board's investments and scheduled maturities of those investments are as follows:

		Maturities	
	Fair Value	Less than 1 year	One to five years
United States Treasury Note, 2.375%	$ 2,169,151	$ 2,169,151	
Time deposits	9,252,459	7,338,342	$ 1,914,117
TOTAL INVESTMENTS	$11,421,610	$ 9,507,493	$ 1,914,117

Investment Interest Rate Risk

The Board has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments at June 30, 2005, are provided in the previous schedule.

During the year ended June 30, 2004, the Board joined with six other municipal electric utilities and formed the Upper Peninsula Public Power Agency (Agency) a joint action agency created under Public Act 448 of the State of Michigan. The primary purpose of the Agency is to facilitate an ownership interest in American Transmission Company, LLC, for its members, with any investment revenues countering likely increases in wholesale transmission expenses. The Board transferred transmission assets with a net book value of $746,390 and approximately $902,000 in cash to the Agency in return for an approximate 68 percent ownership interest in the Agency. During the year ended June 30, 2005, the Board made additional investments in the Agency in the amount of $152,972. This investment is carried at cost.

NOTE E--LONG-TERM DEBT

Details of outstanding long-term revenue bonds as of June 30, 2005, are as follows:

Issue of October 11, 2001, 2.625 to 3.80%, net of $61,388 discount, payable in variable annual installments through 2009	$ 8,123,612

Maximum annual maturities through 2009 total $3,805,000. Bonds maturing in the years 2006 through 2009 are subject to redemption prior to maturity at the option of the city, in such order as the city may determine, and by lot within a single maturity, on any interest payment date on or after July 1, 2006. Bonds called for redemption shall be redeemed at par and accrued interest to the date fixed for redemption.

The annual cash requirements to amortize all recorded debt outstanding, including interest payments, are as follows for each of the fiscal years ended:

	July 1		January 1	
June 30	Interest	Principal	Interest	Total
2006	$ 203,063	$ 3,805,000	$ 145,988	$ 4,154,051
2007	145,988	2,695,000	101,520	2,942,508
2008	101,520	2,790,000	51,300	2,942,820
2009	51,300	2,700,000		2,751,300
	$ 501,871	$11,990,000	$ 298,808	$12,790,679

The following is a summary of long-term debt transactions for the year ended June 30, 2005:

	June 30, 2004	Additions	Payments or Amortization	June 30,2005
Revenue Bonds payable	$ 11,990,000		$(3,805,000)	$ 8,185,000
Less: Unamortized net discount	(89,925)		28,537	(61,388)
TOTAL BONDS PAYABLE	$ 11,900,075	$ 0	$(3,776,463)	$ 8,123,612

Interest payments relating to the 2001A revenue bonds totaled $457,996 and $557,246 for the years ended June 30, 2005 and 2004, respectively. Other interest payments totaled $39,966 and $37,581 for the years ended June 30, 2005 and 2004, respectively.

NOTE F--FUNDS AVAILABLE FOR DEBT SERVICE

Income available for debt service consists of the following:

	Year Ended June 30 2005	Year Ended June 30 2004
Operating income	$ 340,394	$ 2,679,090
Charges from municipality in lieu of property taxes	1,203,013	1,240,622
Provision for depreciation and amortization	3,191,335	3,188,058
Investment income	638,058	426,681
Delayed payment fee	31,989	29,676
AMOUNT AVAILABLE FOR DEBT SERVICE	$ 5,404,789	$ 7,564,127

Debt service requirements consist of the following:

	Year Ended June 30 2005	Year Ended June 30 2004
Principal--2001A	$ 3,805,000	$ 3,705,000
Interest expense--2001A	406,125	509,865
TOTAL DEBT SERVICE	$ 4,211,125	$ 4,214,865
Debt service ratio	1.28	1.79

NOTE G--NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Board's net assets as of June 30:

	2005	2004
Invested in utility plant, net of related debt:		
Net utility plant	$ 39,788,406	$ 40,786,937
Funds restricted for debt service	4,008,062	3,959,932
Revenue bonds payable	(11,928,612)	(15,605,075)
Accrued interest on long-term debt	(203,062)	(254,932)
INVESTED IN UTILITY PLANT, NET OF DEBT	31,664,794	28,886,862
Restricted:		
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow	12,634	12,809
TOTAL RESTRICTED	2,210,634	2,210,809
Unrestricted:		
Contributions from customers	2,799,681	1,899,415
Unrestricted	9,313,917	11,583,398
TOTAL UNRESTRICTED	12,113,598	13,482,813
TOTAL NET ASSETS	$ 45,989,026	$ 44,580,484

NOTE H--DEFINED BENEFIT PENSION PLAN

The Board participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer pension plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries in accordance with state statute and Board ordinance. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the entire MERS system. The report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

All employees' benefits, except for the executive director, vest after ten years of service. The executive director's benefits vest at eight years of service. Current Board bargaining and nonbargaining active employees covered by the defined benefit plan who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of a member's five year average compensation, times the number of years service. Board employees who have retired prior to July 1, 1992, at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable for life, in an amount equal to the sum of 1.2 percent times the first

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

$4,200 of a member's five-year final average compensation, plus 1.7 percent times the portion of final average compensation over $4,200. The executive director and the management group who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.5 and 2.25 percent, respectively, of a member's five-year final average compensation times the number of years of service credit. All Board bargaining unit employees hired on or after July 1, 1999, are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.0 percent of the five-year final average compensation times the number of years of service (B-2). (MERS) provides for early retirement benefits for all active employees at age 55 with 15 years of service at a reduced retirement benefit and at age 55 with 25 years of service without reduced benefits and age 50 with 25 years of service at a reduced benefit.

Current, active Board bargaining, non-bargaining, and management employees covered by the defined benefit plan hired prior to July 1, 1999, are entitled to the annual cost of living benefit upon retirement (E-2).

The System also provides death and disability benefits. The benefit provisions and all other requirements are established by state statute and Board ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly 10 years of credited service, if the actually acquired credited service is less than 10 years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect Option II (100 percent joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85 percent of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Plan members are required to contribute percentages ranging from 4.7 percent to 4.8 percent of their annual salary to the plan, except for the Executive Director's contribution which is paid by the Board. The Board is required to contribute an actuarially-determined rate. The contribution requirements of plan members and the Board are established and may be amended by the Board and the MERS Board of Trustees, respectively.

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

For 2005, the Board's annual pension cost was $352,968. The Board's actual contributions for 2005 were $348,086. The required contribution was determined as part of the December 31, 2001, actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.0 percent to 9.4 percent per year, and (c) 4.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of the plan assets was determined using techniques that smooth effects of short-term volatility in the market value of investments.

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2001	229,444	164%	0
2002	277,151	100%	0
2003	276,564	100%	0
2004	271,728	99%	0
2005	352,968	99%	0

NOTE I--DEFINED CONTRIBUTION PENSION PLAN

The Board adopted a defined contribution pension plan effective August 1, 1998, covering all salaried employees hired on or after July 1, 1998. The Board and covered employees are each required to contribute 4.0 percent of annual covered payroll. Employees may voluntarily contribute up to an additional 10.0 percent of their annual salary up to the maximum allowed under the Internal Revenue Code. For the year ended June 30, 2005, contributions by the Board totaled $13,834, and contributions by the employees totaled $13,834.

NOTE J--DEFERRED COMPENSATION PLAN

The Board offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. One plan is administered by the International City Managers Association (ICMA) and the other plan by the Nationwide Retirement Solutions Corporation. The plans, available to all Board employees, permit an employee to defer a portion of current earnings until termination, retirement, death, or unforeseeable emergency.

The Board does not make any contributions to the plans; however, voluntary contributions made by qualified participants to the plans for the years ended June 30, 2005 and 2004, totaled $198,155 and $236,065 respectively.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE K--OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note E, the Board provides post-employment health care benefits to eligible retirees and their dependents. The benefits are provided in accordance with a collective bargaining agreement and Board policy. Retirees must be eligible to receive benefits from the MERS System to be covered; however, deferred vested retirees are ineligible for retiree medical coverage. All employees hired on or after July 1, 1995, will, upon retirement, receive full Board-paid health care premiums until they become eligible for reduced Social Security benefits, at which time the Board will continue the premium at the then existing rate level and the retiree will pay any annual premium increases until age 65 at which time coverage ceases. The Board funds the benefits on a pay-as-you-go basis. There are currently 72 contracts covering retirees and/or dependents receiving post-employment health care coverage paid for by the Board. For the years ended June 30, 2005 and 2004, the Board incurred premium expense of $804,637 and $651,126, respectively.

NOTE L--PURCHASE COMMITMENTS

The Board has a commitment to purchase a minimum of 140,000 net tons per year through 2008 of Western Coal from a supplier at a base contract price of $21.60 (indexed quarterly) per ton at a heating value of 9,350 BTU's per pound. Of this commitment, 33,070 tons were purchased as of June 30, 2005, relating to the 2005 Great Lakes shipping season. The contract was extended through the end of the 2008 shipping season with a $.50 per ton price reduction effective January 1, 2004.

NOTE M--CAPACITY AND ENERGY SALES AGREEMENT

Effective July 1, 1998, the Board entered into a seven (7) year agreement to sell unit capacity and related energy to a third party. The initial amount of capacity nominated by the Board was equal to forty (40) mega-watts. The amount of capacity nominated was modified each year for projected changes in the Board's native system load, plus existing off-system sales, plus projected changes in the rated capacity of the Board's generating units. During the years ended June 30, 2005 and 2004, the Board recorded $2,891,898 and $3,097,767 of revenue representing both capacity and energy sales under this agreement. This agreement expired on June 30, 2005.

NOTE N--PINEHILL LANDFILL SITE

The Board owns a Type III sanitary landfill site located in Negaunee Township, Michigan, which was used for the disposal of fly ash resulting from the burning of coal for the operation of the Shiras Steam Plant. The Board was notified by the Michigan Department of Natural Resources that the cell used at the landfill had resulted in degradations of the groundwaters located under the landfill. The Michigan Department of Environmental Quality (DEQ) approved the Board's feasibility study for the landfill. The Board subsequently submitted a Remedial Action Plan (RAP) for the site that was approved by the DEQ in February 1998. Based upon the approved RAP, the Board has recorded an estimated liability for the post-closure costs, which are expected to be limited to the annual costs relating to sampling and testing.

NOTE O--RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages these risks in several manners.

The Board maintains coverage from commercial insurance companies as well as public entity risk pools and industry mutuals for a variety of risks including general and public officials liability, property, boiler machinery, fleet, inland marine, and workmen's compensation. The Board participates in public entity risk pools with other public utilities and various municipalities for coverage. These agreements allow for the pools to make additional assessments in order to make the pools self-sustaining. The Board is unable to provide an estimate of the amounts of additional assessments, if any, which may be required to make the pools self-sustaining. Certain other risks are borne by the Board, and the Board has established a Replacement-Risk Retention Fund (see Note B).

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. The Board estimates that any actual claims that are pending (see Note P below) or potential future claims, if any, will not have a material adverse effect on the Board's financial position, results of operations or cash flows and therefore the financial statements contain no provision for any such loss contingency.

NOTE P--EXTRAORDINARY ITEM

On May 15, 2003, the Marquette Board of Light and Power's hydro properties experienced a flood event caused by the failure of a dike at the Silver Lake dam. There was significant erosion along the Dead River and the earthen embankment to the south of the #3 (Tourist Park) dam abutment was washed away. Numerous board facilities were affected by the water and debris including the #2 Hydro Plant basement, the roads to #2 Hydro Plant and Penstock, the #3 Hydro Plant and substation, the river banks, and other facilities.

Subsequent to June 30, 2005, the Board was named as a defendant in lawsuits that claim the Board failed to maintain and operate the Tourist Park dam in a safe and reasonable manner, which resulted in damage to property located downstream of the dam. These cases are in the very early stages of discovery and the Board intends to contest these claims vigorously. The Board is insured in amounts that it believes are sufficient to cover any liability which ultimately may be found and deductibles would not be material to the Board. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements. There is the potential for additional liability claims to be brought against the Board as a result of the flood event.

In addition, the Board has filed claims against several other parties as a result of the flood event.

OTHER FINANCIAL INFORMATION

REPORT OF INDEPENDENT AUDITORS
ON OTHER FINANCIAL INFORMATION

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

Our report on our audits of the basic financial statements of the Marquette Board of Light and Power appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statements and schedules listed in the table of contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Marquette Board of Light and Power. Such information for the six years ended June 30 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 7, 2005

OPERATING EXPENSES

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30 2005	2004
PRODUCTION		
Steam Power Generation:		
Operation:		
Supervision and engineering	$ 80,142	$ 80,458
Fuel	7,227,784	6,749,463
Steam expenses	878,664	921,566
Electric expenses	366,327	389,823
Other	218,353	209,997
	8,771,270	8,351,307
Maintenance:		
Supervision and engineering	68,205	68,525
Structures	72,186	51,035
Boiler plant	1,130,779	873,833
Electric plant	663,752	155,191
Other	9,909	13,169
	1,944,831	1,161,753
TOTAL STEAM POWER GENERATION	10,716,101	9,513,060
Peaking Unit:		
Operation:		
Fuel	1,138,746	1,206,368
Operation and maintenance	121,995	118,306
TOTAL PEAKING UNIT	1,260,741	1,324,674
Hydraulic:		
Operation:		
Supervision and engineering	19,064	17,680
Generation	5,664	5,620
Other	17,962	24,035
	42,690	47,335
Maintenance:		
Supervision and engineering	17,063	17,127
Structures	11,578	6,467
Reservoirs, dams, and waterways	48,506	55,964
Electric plant	32,040	5,530
Other	11,412	287
	120,599	85,375
TOTAL HYDRAULIC	163,289	132,710
TOTAL PRODUCTION	12,140,131	10,970,444

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2005	2004
PURCHASED POWER	$ 2,435,030	$ 709,764
TOTAL PRODUCTION AND PURCHASED POWER	14,575,161	11,680,208
DISTRIBUTION AND TRANSMISSION		
Operation:		
Supervision and engineering	102,380	112,663
Lines	21,732	14,229
Street lighting and signal systems	1,240	1,080
Meters	97,095	80,623
Customer installation	44,922	43,503
Other	38,296	42,854
	305,665	294,952
Maintenance:		
Supervision and engineering	93,769	103,982
Lines, structures, and station equipment	461,084	449,661
Line transformers	5,084	9,242
Street lighting and signal systems	58,815	77,996
Meters and other	21,697	26,091
	640,449	666,972
TOTAL DISTRIBUTION AND TRANSMISSION	946,114	961,924
CUSTOMER ACCOUNTING		
Supervision	39,387	39,625
Meter reading	118,999	128,310
Billing and collection	290,831	292,641
Other	10,748	9,329
TOTAL CUSTOMER ACCOUNTING	459,965	469,905

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30 2005	2004
ADMINISTRATIVE AND GENERAL		
Salaries	$ 383,005	$ 380,456
Office supplies and expense	31,029	30,232
Professional services	69,547	47,402
Workers' compensation and insurance and direct payments	74,527	55,249
Fire, liability, and other insurance	329,880	315,510
Customer sales and safety relations	55,883	56,409
Employees' welfare and benefits:		
Social security	329,318	331,999
Medical insurance	1,623,948	1,449,625
Life insurance and long-term disability	53,468	50,956
Vacations, sick leave, and funeral leave	345,485	361,920
Retirement	361,920	282,426
Paid holidays	99,123	100,144
Longevity pay	16,174	15,731
Safety program	34,958	31,580
Maintenance	36,188	22,446
Other	132,828	120,880
TOTAL ADMINISTRATIVE AND GENERAL	3,977,281	3,652,965
PROVISION FOR DEPRECIATION		
Plant (excluding amounts charged elsewhere (2005 - $112,243; 2004 - $93,947)	3,079,092	3,094,111
CHARGES IN LIEU OF PROPERTY TAXES PAID TO MUNICIPALITY	1,203,013	1,240,622
	$ 24,240,626	$ 21,099,735

UTILITY PLANT IN SERVICE

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2005 (with comparative totals for 2004)

	ASSETS					ALLOWANCES FOR DEPRECIATION					
	Balance at June 30, 2004	Additions	Retirement	Transfers	Balance at June 30, 2005	Balance at June 30, 2004	Provisions	Retirements	Balance at June 30, 2005	NET VALUE June 30, 2005	NET VALUE June 30, 2004
HYDRAULIC PRODUCTION											
Land and land rights	$ 85,146				$ 85,146					$ 85,146	$ 85,146
License	405,173	$ 1,040			406,213		$ 13,506		$ 13,506	392,707	405,173
Structures and improvements	273,686				273,686	$ 170,999	3,117		174,116	99,570	102,687
Reservoirs, dams, and waterways	4,119,643	57,056			4,176,699	1,616,700	74,275		1,690,975	2,485,724	2,502,943
Waterwheels, turbine, and generators	587,246				587,246	489,839	17,072		506,911	80,335	97,407
Roads, railways, and bridges	53,482				53,482	39,210	630		39,840	13,642	14,272
Accessory electrical equipment	348,859				348,859	334,114	4,152		338,266	10,593	14,745
Miscellaneous	1,225				1,225	1,225			1,225	0	0
	5,874,460	58,096	$ 0	$ 0	5,932,556	2,652,087	112,752	$ 0	2,764,839	3,167,717	3,222,373
INTERNAL COMBUSTION ENGINE PRODUCTION											
Structures and improvements	721,144				721,144	596,353	11,755		608,108	113,036	124,791
Fuel holders, producers, and accessories	207,002				207,002	83,809	3,462		87,271	119,731	123,193
Prime movers	274,836				274,836					274,836	274,836
Accessory electrical equipment	188,075				188,075	181,071	350		181,421	6,654	7,004
Miscellaneous	23,428	20,521			43,949	23,428			23,428	20,521	0
	1,414,485	20,521	0	0	1,435,006	884,661	15,567	0	900,228	534,778	529,824
TURBINE COMBUSTION											
Structures and improvements	300,285				300,285	251,572	10,000		261,572	38,713	48,713
Prime movers	163,024				163,024	172,053	14,589		186,642	(23,618)	(9,029)
Generators	3,476,159				3,476,159	2,915,050	115,756		3,030,806	445,353	561,109
Accessory electrical equipment	551,615				551,615	336,950	20,912		357,862	193,753	214,665
	4,491,083	0	0	0	4,491,083	3,675,625	161,257	0	3,836,882	654,201	815,458
STEAM PRODUCTION											
Land and land rights	951,797				951,797					951,797	951,797
Structures and improvements	8,457,171	36,345			8,493,516	5,965,708	282,148		6,247,856	2,245,660	2,491,463
Boiler plant and equipment	27,901,290				27,901,290	19,787,866	812,198		20,600,064	7,301,226	8,113,424
Turbogenerator units	11,057,932				11,057,932	8,423,899	307,541		8,731,440	2,326,492	2,634,033
Accessory electric equipment	6,206,342				6,206,342	4,424,099	193,212		4,617,311	1,589,031	1,782,243
Steam pollution control equipment	10,585,230				10,585,230	8,641,598	205,800		8,847,398	1,737,832	1,943,632
Miscellaneous power plant equipment	1,012,985				1,012,985	672,419	31,792		704,211	308,774	340,566
	66,172,747	36,345	0	0	66,209,092	47,915,589	1,832,691	0	49,748,280	16,460,812	18,257,158

UTILITY PLANT IN SERVICE--Continued

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2005 (with comparative totals for 2004)

	ASSETS					ALLOWANCES FOR DEPRECIATION					
	Balance at June 30, 2004	Additions	Retirement	Transfers	Balance at June 30, 2005	Balance at June 30, 2004	Provisions	Retirements	Balance at June 30, 2005	NET VALUE June 30, 2005	NET VALUE June 30, 2004
TRANSMISSION LINE PROJECT											
Station equipment	$ 1,484,896	$ 750			$ 1,485,646	$ 803,538	$ 36,450		$ 839,988	$ 645,658	$ 681,358
Poles and fixtures	344,115				344,115	252,661	10,561		263,222	80,893	91,454
Overhead conductors and devices	254,394	26,511			280,905	144,248	7,869		152,117	128,788	110,146
	2,083,405	27,261	$ 0	$ 0	2,110,666	1,200,447	54,880	$ 0	1,255,327	855,339	882,958
GENERAL											
Structures and improvements	666,560				666,560	564,608	20,984		585,592	80,968	101,952
Office furniture and equipment	726,887	134,624			861,511	495,034	70,121		565,155	296,356	231,853
Transportation equipment	1,404,969	105,588	28,211		1,482,346	719,894	106,758	25,017	801,635	680,711	685,075
Tools and work equipment	107,728				107,728	107,003	435		107,438	290	725
Laboratory equipment	105,331	3,563			108,894	83,870	5,799		89,669	19,225	21,461
Power operated equipment	547,518				547,518	530,676	5,485		536,161	11,357	16,842
Communication equipment	127,153	44,208			171,361	98,875	5,789		104,664	66,697	28,278
Miscellaneous equipment	37,698	17,332			55,030	16,218	5,849		22,067	32,963	21,480
	3,723,844	305,315	28,211	0	4,000,948	2,616,178	221,220	25,017	2,812,381	1,188,567	1,107,666
DISTRIBUTION											
Land and land rights	83,027				83,027					83,027	83,027
Substation equipment	2,938,717	750			2,939,467	1,542,781	140,755		1,683,536	1,255,931	1,395,936
Poles, towers, and fixtures	4,503,322	173,530	44,378		4,632,474	1,909,599	107,648	41,258	1,975,989	2,656,485	2,593,723
Overhead conductors and devices	6,361,547	175,894	33,724		6,503,717	3,003,113	161,067	33,724	3,130,456	3,373,261	3,358,434
Underground conduit	438,931	39,669			478,600	26,990	13,031		40,021	438,579	411,941
Underground conductors and devices	3,217,385	968,351			4,185,736	565,680	95,902	104	661,478	3,524,258	2,651,705
Line transformers	4,352,669	214,606	44,262		4,523,013	1,914,275	112,267	36,884	1,989,658	2,533,355	2,438,394
Services	1,755,659	86,790			1,842,449	799,472	45,228		844,700	997,749	956,187
Meters	1,179,572	87,183	40,161		1,226,594	490,888	31,799	40,161	482,526	744,068	688,684
Installation on customers' premises	22,417				22,417	21,821	216		22,037	380	596
Structures and improvements	141,222				141,222	85,758	4,702		90,460	50,762	55,464
Street lighting and signal systems	2,591,207	12,080			2,603,287	1,253,798	80,352		1,334,150	1,269,137	1,337,409
	27,585,675	1,758,853	162,525	0	29,182,003	11,614,175	792,967	152,131	12,255,011	16,926,992	15,971,500
	$ 111,345,699	$ 2,206,391	$ 190,736	$ 0	$ 113,361,354	$ 70,558,762	$ 3,191,334	$ 177,148	$ 73,572,948	$ 39,788,406	$ 40,786,937

COMPARATIVE OPERATING STATISTICS

MARQUETTE OF BOARD OF LIGHT AND POWER

	Year Ended June 30		Megawatt Hours Year Ended June 30		Revenues/Expenses Megawatt Hours Year Ended June 30	
	2005	2004	2005	2004	2005	2004
OPERATING REVENUES						
Electricity:						
Residential:						
Urban	$ 3,605,623	$ 3,463,058	47,229	47,744	$76.34	$72.53
Rural	3,765,158	3,602,726	48,589	48,768	77.49	73.87
Commercial:						
Urban	3,053,047	2,917,778	42,681	43,518	71.53	67.05
Rural	812,150	756,492	10,595	10,337	76.65	73.18
Power:						
Urban	2,420,341	2,218,247	41,007	39,906	59.02	55.59
Rural	2,133,320	2,060,393	35,838	36,736	59.53	56.09
Other public authorities:						
Urban	3,135,714	2,887,108	54,206	52,977	57.85	54.50
Rural	309,143	291,323	4,507	4,488	68.59	64.91
Sales for resale:						
Alger-Delta Cooperative	805,367	768,081	15,517	15,735	51.90	48.81
Wisconsin Electric Power Company	2,891,898	3,097,767	19,908	29,121	145.26	106.38
Upper Peninsula Power Co.						
Street lighting:						
Urban	232,813	219,665	1,954	1,899	119.15	115.67
Rural	83,595	82,529	665	667	125.71	123.73
Other Municipal Depts.	686,200	674,730	10,108	10,543	67.89	64.00
	23,934,369	23,039,897	332,804	342,439	71.92	67.28
Rent and other	646,651	738,928			1.94	2.16
	24,581,020	23,778,825			73.86	69.44
OPERATING EXPENSE	24,240,626	21,099,735			72.84	61.62
NET OPERATING INCOME	340,394	2,679,090			1.02	7.82
Other income	670,047	456,357			2.01	1.33
	1,010,441	3,135,447			3.04	9.15
Other deductions	502,165	602,708			1.51	1.76
NET INCOME	$ 508,276	$ 2,532,739			$ 1.53	$ 7.39

COMPARATIVE OPERATING STATISTICS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Megawatt Hours		Percentage	
	Year Ended June 30		Year Ended June 30	
	2005	2004	2005	2004
ELECTRICITY PRODUCED				
Delivered to customers	332,804	342,439	88.80%	89.64%
Consumed in operations	25,884	27,704	6.91%	7.25%
Unaccounted for	16,110	11,858	4.30%	3.11%
	374,798	382,001	100.00%	100.00%

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30					
	2005	2004	2003	2002	2001	2000
MEGAWATT HOURS						
Power use:						
Residential	95,817	96,512	97,492	92,162	90,108	89,475
Commercial	53,276	53,855	56,164	55,709	56,299	56,191
Power	76,845	76,642	74,056	65,973	64,395	61,437
Other public authorities	58,713	57,465	57,813	56,723	52,873	51,325
Alger Delta Co-op	15,517	15,735	16,197	14,648	14,183	14,141
Upper Peninsula Power Co.				108		
Wisconsin Electric Power Co.	19,908	29,121	43,986	5,042	13,604	14,638
Street lighting	2,620	2,566	2,548	2,482	2,459	2,691
Other municipal departments	10,108	10,543	11,224	10,985	10,323	9,500
	332,804	342,439	359,480	303,832	304,244	299,398
Gross system peak demand (MW)	63.7	60.4	62.2	58.9	54.4	53.8
Plant system capability (MW)	105.1	105.1	105.1	105.1	105.1	105.1
FINANCIAL DATA (thousands)						
Revenues:						
Urban	$12,215	$11,486	$11,388	$11,106	$10,692	$10,235
Rural	7,020	6,711	6,417	6,184	5,939	5,778
Street lighting	316	302	299	299	301	321
Sale for resale:						
Alger Delta Co-op	805	768	762	710	664	642
Upper Peninsula Power Co.				14		
Wisconsin Electric Power Co.	2,892	3,098	4,720	1,298	1,851	1,668
Other municipal departments	686	675	696	703	661	602
Other	647	739	589	574	550	459
	24,581	23,779	24,871	20,888	20,658	19,705
Expenses:						
Operating	19,959	16,765	17,438	13,734	14,205	13,675
Charges in lieu of property taxes paid to municipality	1,203	1,241	1,241	1,248	1,266	1,288
Provisions for depreciation and amortization	3,079	3,094	3,103	3,020	2,881	3,065
Interest and amortization, less other income	(168)	146	92	273	162	611
	24,073	21,246	21,874	18,275	18,514	18,639
Net income before extraordinary item	508	2,533	2,998	2,613	2,144	1,066
Extraordinary item			(122)	(550)		
NET INCOME	$ 508	$ 2,533	$ 2,876	$ 2,063	$ 2,144	$ 1,066

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	2005	2004	2003	2002	2001	2000
Financial (thousands):						
Net plant in service and construction in progress	$39,788	$40,787	$42,618	$43,076	$43,649	$43,792
Bonds outstanding	$11,929	$15,605	$19,187	$22,467	$26,878	$29,569

SUPPLEMENTAL INFORMATION

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

MARQUETTE BOARD OF LIGHT AND POWER

Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
1999	$ 18,484,644	$ 17,553,732	$ (930,912)	105%	$ 3,431,413	0%
2000	$ 20,201,860	$ 21,432,284	$ 1,230,424	94%	$ 3,585,217	34%
2001	$ 21,249,595	$ 22,508,331	$ 1,258,736	94%	$ 3,720,528	34%
2002	$ 21,204,453	$ 23,824,315	$ 2,619,862	89%	$ 3,577,979	73%
2003	$ 21,931,156	$ 26,001,957	$ 4,070,801	84%	$ 3,911,098	104%
2004	$ 22,438,510	$ 27,151,787	$ 4,713,277	83%	$ 3,599,278	131%

Commencing with the 1993 actuarial valuation, the required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year, compounded annually, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00 percent to 4.16 percent per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 30 years.